Pension Investment Association of Canada
Association canadienne des gestionnaires de caisses de retraite

June 10, 2021

Mr. Michael MacPherson
Clerk of the Committee
Standing Committee on Industry, Science and Technology
Sixth Floor, 131 Queen Street
House of Commons
Ottawa ON K1A 0A6
Delivered Via Email: INDU@parl.gc.ca

**Re: Bill C-253 An Act to amend the Bankruptcy and Insolvency Act and the Companies' Creditors Arrangement Act (pension plans and group insurance plans)**

Dear Mr. MacPherson and members of the Standing Committee on Industry, Science and Technology:

The purpose of this letter is to provide comments from the Pension Investment Association of Canada (PIAC) on the Standing Committee on Industry, Science and Technology's (the Committee) current review of Bill C-253 following its second reading vote in the House of Commons.

PIAC has been the national voice for Canadian private and public pension funds since 1977 in matters related to pension investment and governance. Senior investment professionals employed by PIAC's member funds are responsible for the oversight and management of over $2 trillion in assets on behalf of millions of Canadians. PIAC's mission is to promote sound investment practices and good governance for the benefit of pension plan sponsors and beneficiaries. PIAC's positions on public policy reflect the fiduciary framework in which member funds operate and its commitment to work in the best interests of plan members.

**Preferred Creditor Status**

PIAC wishes to commend the Committee's efforts to prioritize improving retirement security for pension plan members. However, PIAC feels that while Bill C-253's goals are noteworthy, the legislation will have greater unintended consequences that goes beyond the problem that it is intending to solve.

PIAC is not supportive of providing a super-priority for unfunded pension liabilities and employee post-retirement benefits in an insolvency situation. While we recognize that the intention of such a change would be to enhance retirement security for plan beneficiaries, we believe that overall impact on the retirement income system would be negative.

Most private sector plan sponsors rely on bank and/or capital markets financing to operate their businesses such that preferred creditor status for unfunded pension liabilities would impact the cost and availability of credit for individual companies that sponsor defined benefit (DB) plans. Moreover, the impact would be highly pro-cyclical and most acute during periods when lenders are most concerned about pension deficits, which is typically recessionary periods when businesses are already facing more difficult operating conditions. For companies facing severe business challenges, preferred creditor status would likely reduce the availability of new capital to effect a turnaround, likely putting the business in further danger leading to further job losses. This risk also exists in the absence of challenging periods where companies face the threat of credit rating downgrades.

It is also worth noting that individual companies which sponsor DB plans would be disadvantaged in terms of cost of capital relative to competitors that do not sponsor DB plans, and this would no-doubt lead to a re-assessment of the overall strategic value of the DB plans to those businesses. As such, super-priority status could lead to the further decline of DB plans in the private sector.

PIAC members provide substantial financing to the Canadian private sector through the corporate bond market. Some degree of negative re-pricing of corporate debt for issuers with material DB plans would be expected from a re-alignment of the bankruptcy rules and this would translate into capital losses for pension portfolios. Again, securities issued by companies with the largest DB plans and lower credit ratings would be most impacted by such changes.

Finally, we would observe that there appears to have been limited published work by policy makers or researchers to collect, aggregate and analyze the actual historical Canadian experience with regard to pension plan terminations from insolvencies and the ultimate impact on beneficiaries. The creation of a super-priority in bankruptcy would have broad systemic implications for companies offering DB plans and in the absence of data, it is difficult to assess the potential offsetting benefits in terms of additional security to the Canadian system. PIAC believes the debate around this complex issue would benefit from such analysis and encourage the federal government and/or the Committee to catalyze this work.

We appreciate this opportunity to share our views on this important matter.

Yours sincerely,

Natasha Trainor

Natasha Trainor
Chair